

# The penalty for over-payment can be serious

**Dear Chris,**

After years of struggling to make an annual contribution to my RRSP, last year I mistakenly put in more than what I was allowed to.



**CHRIS  
CARTER**  
Ask Carter

Other than reducing my expected contribution for this year, is there anything I need to do to correct

this over-contribution?

— *Jim, Vancouver*

**Dear Jim,**

Depending on the amount by which you have over-contributed to your RRSP, you could be facing a costly penalty if your mistake is not corrected immediately.

Ottawa permits all of us to over-contribute to an RRSP by up to \$2,000. Although a small over-contribution of \$2,000 or less will not provide you with any increase in this year's tax deduction beyond your allowable maximum, it will not trigger any penalties or taxes. You can carry forward this amount and apply it to a future year's contribution to your plan.

If your savings efforts have taken you beyond the \$2,000 limit, you need to take steps immediately to reverse your contribution or face a tax being applied at a rate of one per cent per month against the over-contributed amount that exceeds this aforementioned \$2,000 limit.

There are several ways the mistake can be corrected. Given that your over-contribution was made fairly recently, the best solution is for your plan administrator to provide you with a "Refund of unused RRSP contributions" form to complete which will allow the excess amount to be removed from the RRSP without the institution having the usual RRSP redemption taxes withheld.

As you create new RRSP contribution room in subsequent years, you can return your savings back into the registered plan by making a normal contribution.